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Liberty Syndicate 4472

Annual Report and Financial Statements for the year
ended 31 December 2015

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Directors and Administration

Managing Agent

Liberty Managing Agency Limited

Directors

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Group Chief Underwriting Officer
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

Syndicate Secretary

Joseph Cassidy

Managing Agent's Registered Office

20 Fenchurch Street
London
EC3M 3AW

Managing Agent's Registered Number

3003606

Active Underwriter

Peter Smith

Investment Managers

Liberty Mutual Group Asset Management Inc.

Registered Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Managing Agent's Report

The Syndicate's Managing Agent is a company registered in England and Wales. The Directors of the Managing Agent present their report for Syndicate 4472 for the year ended 31 December 2015.

Strategic Report

Principal activity and review of the business

There have not been any significant changes to the Syndicate's principal activity during the year. The Syndicate's principal activity continued to be the transaction of general insurance and reinsurance business.

Underwriting Performance

The result for the calendar year is a profit of \$108.7m (2014: \$213.7m)

Key Performance Indicators	2015	2014
	\$m	\$m
Gross Premiums Written	1,763.2	2,037.2
Net Earned Premium	1,499.7	1,595.9
Underwriting Result	68.5	77.5
Profit for the Financial Year	108.7	213.7
Claims Ratio %	53%	58%
Expense Ratio %	42%	37%
Combined Ratio % ⁽ⁱ⁾	95%	95%

(i) The combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

The creation of Liberty Specialty Markets (LSM) has allowed the Syndicate to benefit from LSM's ability to underwrite on twin platforms, from which it has managed to grow its Casualty and Liability lines of business.

Despite new opportunities and business growth in established lines, the Syndicate's planned decrease in both property and pecuniary lines, re-positioning of the Syndicate's motor book to elsewhere within LSM, coupled with further rate reductions and continued currency fluctuation, has resulted in a decrease of 13% in gross written premiums when compared to 2014.

Earnings from longer tail casualty lines will take time to emerge. The net reduction in earned premium of 6%, was buoyed by a mix of premium income earning on binder business from prior years, and changes in quota share arrangements.

The Syndicate's claims ratio improved to 53% (2014: 58%), reflecting a second successive below average Atlantic hurricane season, prior year reserve releases particularly on Marine and Property reinsurance lines, but yet another high incidence of Aviation claims, including Germanwings, Metrojet and the Istanbul airport attacks.

The increase in the expense ratio from 37% to 42% is driven by a change in the managing agency fee agreement to be in alignment with open market levels, and increased consultancy costs with the changes in the UK accounting and European regulatory environment.

Overall, the underwriting profit after expenses amounted to \$68.5m (2014: \$77.5m) and the combined ratio remained consistent with the previous year.

Managing Agent's Report (continued)

Review of financial position

Financial investments decreased from \$4,271.5m to \$4,080.2m, predominantly driven by the effect of unrealised losses and the sale of investments for cash settlement of intercompany balances and distributions to the corporate member.

Reinsurer's share of unearned premiums have increased to \$141.8m from \$94.7m. This is attributed to increases in two existing primary quota share contracts, and an additional quota share in respect of the new casualty lines.

Gross technical provisions have decreased from \$3,605.8m to \$3,442.3m as a result of prior year reserve releases primarily on accepted reinsurance business, and sufficient reserving for outstanding claims.

Investment Performance

Total investment return for 2015 was \$27.4m versus \$139.6m in 2014. The gross income from investment for 2015 was \$121.7m versus \$128.0m in 2014. This fall is due, in part, to other currencies' depreciation relative to the US dollar, combined with an ongoing challenging yield environment. Net unrealised gains on investments was \$78.3m in 2015 versus \$25.3m in 2014, driven mainly by a move in risk free rates over the period especially over the later part of the year. This was caused initially by speculation around rate rises and supported by the US Federal Reserve's decision in December to raise the federal funds rate for the first time since 2006.

Managing Agent's Report (continued)

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Syndicate are grouped as intrinsic, operational or other risks. Intrinsic risk incorporates the principal risks faced by the Syndicate and includes insurance risk, market risk, credit risk and liquidity risk. Other risk includes group risk and strategic risk.

The objective of the Syndicate's risk management activities is to enable it to engage with risks in a controlled fashion that is consistent with LSM's Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans and meet its obligations to policyholders.

Intrinsic Risk

Insurance Risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events.

Premium risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Reserve risk is mitigated through the use of detailed analysis performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long term reserve profile of the Syndicate remains stable.

Market Risk

Market risk is the risk of fluctuations to the net asset value due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net liabilities.

The principal causes of market risk are:

- Interest rate risk: The risk of fluctuations to the net asset value due to movements in the term structure of risk free rate.
- Spread risk: The risk from the widening of the spread over "risk free" yield curve.
- Credit risk: comprises
 - Default risk: The risk that a bond defaults and the recovery is less than the full valuation of the bond.
 - Migration risk: The risk that the credit rating of a bond moves to a lower rating before maturity. Bonds that migrate will experience changes in valuations due to the use of yield curves based on different ratings.
- Private equity risk: The risk of fluctuations in the net asset value due to the volatility in the valuation of the private equity funds.
- Financial exchange risk: The risk of fluctuations in the net asset value due to changes in the level and volatility of currency exchange rates and mismatches between the assets and liabilities.
- Asset concentration risk: The risk of an exposure having the potential to result in significant large losses.

Market risk is mitigated through the use of a diversified investment strategy operating within Board risk appetites and operationalised through the investment guidelines.

Managing Agent's Report (continued)

Principal Risks and Uncertainties (continued)

Credit Risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations. The principal source of credit risk arises from the inability of reinsurers to meet their contractual obligations as they become due.

Credit risk is mitigated through controls encompassing due diligence and continued monitoring to ensure the appropriate selection of counterparties and Board risk appetites to prevent inappropriate credit risk concentrations.

Liquidity Risk

Liquidity risk is the probability of loss arising from situations where the Syndicate either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands.

Liquidity risk is mitigated through the use of asset-liability modelling and through the maintenance of a diversified and appropriately liquid portfolio of assets.

Operational Risk

Operational risk is the risk of loss to the Syndicate resulting from the inadequate or failed internal processes, people and systems, or from external events. Operational risk also includes reputational risk and conduct risk.

Operational risk is mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls.

Other Risks

Group risk is the risk of loss to the Syndicate arising from its membership of both Liberty Mutual Group and Liberty Specialty Markets.

Group risk is mitigated through the monitoring of Liberty Mutual Group's financial strength and business strategy developments. In addition, the chairman of any committee reviewing risk information ensures that due attention is given to each legal entity within Liberty Specialty Markets, even in times of stress to one entity.

Strategic risk is the risk of loss to the Syndicate arising from key business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is mitigated through the development and implementation of the Syndicate's strategy and through controls relating to the development of new business opportunities.

These risks are covered in substantial detail in Note 15 to the financial statements.

Managing Agent's Report (continued)

Directors' Report

Future Developments

The Syndicate will continue to transact general insurance and reinsurance business via the Lloyd's underwriting platform within the integrated Liberty Specialty Markets organisation, and will continue to take advantage of the opportunities presented by multiple underwriting platforms, including for example an expansion in the Syndicate's international presence. This will allow the Syndicate to maintain and grow its offering in a challenging market and in difficult economic conditions.

Directors

The current Directors are listed on page 1. Directors who held office between 1 January 2015 and the date of signing the financial statements were:

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Group Chief Underwriting Officer (appointed 1 April 2015)
Sean Rocks	Chief Underwriting Officer – Commercial (Resigned on 31 October 2015)
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

None of the Directors has any participation on the Syndicate.

Peter Smith was appointed as Active Underwriter on 1 July 2015, replacing Matthew Moore in this role.

Auditors

Disclosure of Information to the Auditors

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the Managing Agent and the Syndicate's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

The Syndicate's managing agency, Liberty Managing Agency Limited, has resolved to reappoint Ernst & Young LLP as the recognised auditors for 2016. Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Ernst & Young LLP will be deemed to be reappointed as auditors for future years unless the member formally advises Liberty Managing Agency Limited otherwise.

By order of the Board

Nick Metcalf

President & Managing Director
London

14 March 2016

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and financial statements and Directors' Report in accordance with applicable laws and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent Auditors' Report

to the member of Syndicate 4472

We have audited the syndicate annual accounts of syndicate 4472 ('the syndicate') for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Independent Auditors' Report (continued)

to the member of Syndicate 4472

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- ▶ the managing agent in respect of the syndicate has not kept adequate accounting records; or
- ▶ the syndicate annual accounts are not in agreement with the accounting records; or
- ▶ we have not received all the information and explanations we require for our audit.

Angus Millar (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

15 March 2016

Income Statement

Technical Account – General Business

for the year ended 31 December 2015

	Notes	2015 \$m	2014 \$m
Gross premiums written	2	1,763.2	2,037.2
Outward reinsurance premiums		(384.4)	(418.0)
Net premiums written		1,378.8	1,619.2
Change in the provision for unearned premiums:			
Gross amount		70.9	(82.4)
Reinsurers' share		50.0	59.1
Change in net provision for unearned premiums	13	120.9	(23.3)
Earned premiums, net of reinsurance		1,499.7	1,595.9
Allocated investment return transferred from the non-technical account	7	15.7	114.6
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(934.4)	(959.4)
Reinsurers' share		124.6	140.5
Net claims paid		(809.8)	(818.9)
Change in the provision for claims			
Gross amount		21.3	(54.6)
Reinsurers' share		(13.5)	(48.2)
Change to the net provision for claims	14	7.8	(102.8)
Claims incurred, net of reinsurance		(802.0)	(921.7)
Net operating expenses	3	(629.2)	(596.7)
Balance on the general business technical account		84.2	192.1

All the amounts above are in respect of continuing operations.

Income Statement

Non-Technical Account – General Business

for the year ended 31 December 2015

	Notes	2015 \$m	2014 \$m
Balance on the general business technical account		84.2	192.1
Investment income	7	111.4	120.4
Unrealised (losses)/gains on investments	7	(78.3)	25.3
Investment expenses and charges	7	(5.7)	(6.1)
Allocated investment return transferred to the general business technical account		(15.7)	(114.6)
Exchange gains and losses		12.8	(3.4)
Profit for the financial year		108.7	213.7

Statement of Other Comprehensive Income

for the year ended 31 December 2015

	2015	2014
	\$m	\$m
Profit for the financial year	108.7	213.7
Effect of foreign exchange translation	(35.6)	(24.3)
Total comprehensive income for the year	73.1	189.4

Statement of Changes in Members' Balances

for the year ended 31 December 2015

	2015	2014
	\$m	\$m
Balance due to member brought forward at 1 January	1,126.5	989.8
Profit for the financial year	108.7	213.7
Effect of foreign exchange translation	(35.6)	(24.3)
Net distribution of closed year profits	(97.1)	(52.7)
Amounts due directly from member	(0.3)	-
Balance due to member carried forward at 31 December	1,102.2	1,126.5

Statement of Financial Position - Assets

at 31 December 2015

	Notes	2015 \$m	2014 \$m
Investments			
Financial investments	8	4,080.2	4,271.5
Reinsurers' share of technical provisions			
Claims outstanding	14	334.5	357.0
Provision for unearned premiums	13	141.8	94.7
		476.3	451.7
Debtors			
Debtors arising out of direct insurance operations	9	419.8	392.3
Debtors arising out of reinsurance operations		418.0	458.8
Other debtors		0.3	0.3
		838.1	851.4
Other assets			
Cash at bank and in hand	12	30.6	63.3
Other assets	11	132.3	121.6
		162.9	184.9
Prepayments and accrued income			
Accrued interest		32.5	37.2
Deferred acquisition costs	10	210.1	243.2
Other prepayments and accrued income		24.2	26.0
		266.8	306.4
Total Assets		5,824.3	6,065.9

Statement of Financial Position - Liabilities

at 31 December 2015

	Notes	2015 \$m	2014 \$m
Members' balances			
Profit and loss account		1,102.2	1,126.5
Technical provisions			
Claims outstanding	14	3,442.3	3,605.8
Provision for unearned premiums	13	820.8	927.8
		4,263.1	4,533.6
Creditors			
Creditors arising out of direct insurance operations		4.3	9.1
Creditors arising out of reinsurance operations		327.8	235.4
Other creditors		68.5	123.6
		400.6	368.1
Accruals and deferred income			
		58.4	37.7
Total Liabilities		5,824.3	6,065.9

The annual accounts on pages 10 to 48 were approved by the Board of Liberty Managing Agency Limited and were signed on its behalf by

Nick Metcalf
Liberty Managing Agency Limited

14 March 2016

Statement of Cash Flows

for the year ended 31 December 2015

	Notes	2015 \$m	2014 \$m
Cash Flow			
Operating result		108.7	213.7
(Decrease)/increase in gross technical provisions		(270.5)	13.4
Increase in reinsurers' share of gross technical provisions		(24.6)	(1.5)
Decrease/(increase) in debtors		52.6	(80.6)
Increase in creditors		53.1	132.1
Investment return		(27.4)	(139.6)
Other		12.8	(3.5)
<i>Net cash flows from operating activities</i>		(95.3)	134.0
Cash flows from investing activities			
Purchase of equity and debt instruments		(2,051.0)	(1,621.4)
Sale of equity and debt instruments		2,024.0	1,325.1
Investment income received		105.7	114.3
Other		(1.3)	1.0
<i>Net cash flows from investing activities</i>		77.4	(181.0)
Cash flows from financing activities			
Distribution of closed year profits		(248.5)	(35.4)
Cash injections to Funds in Syndicate		248.5	35.4
Closed year profit released to member		(97.1)	(52.7)
Other		81.0	78.4
<i>Net cash flows from financing activities</i>		(16.1)	25.7
Net decrease in cash and cash equivalents		(34.0)	(21.3)
Cash and cash equivalents at beginning of year		91.8	113.2
Cash and cash equivalents at end of year	12	57.8	91.8

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies

1.1. Statement of compliance

Syndicate 4472 is the vehicle on which (re)insurance business is conducted at Lloyd's on behalf of the corporate capital provider, Liberty Corporate Capital Limited (LCCL). The Syndicate is managed by Liberty Managing Agency Limited (LMAL). Registered details for the managing agent can be found on page 1. The financial statements cover those of the Syndicate and are prepared as at, and for the year ended, 31 December 2015.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The annual basis of accounting has been applied to all classes of business written by the Syndicate.

The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how the transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 20.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2015 were approved for issue by the Board of Directors on 14 March 2016.

The financial statements are prepared in United States Dollar (USD) which is the presentation and functional currency of the Syndicate and rounded to the nearest \$0.1m.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

1.3. Judgements and key sources of estimation uncertainty

1.3.1 Technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years by significant lines of business. Large / Catastrophe claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies (continued)

1.3. Judgements and key sources of estimation uncertainty (continued)

1.3.1 Technical provisions (continued)

claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of ultimate premiums.

Further details are given in Note 15.

1.3.2 Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

1.3.3 Fair value of financial assets determined using valuation techniques

Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or other mathematical models. The inputs from these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. For fixed-income and asset-backed securities the judgments include considerations for liquidity risk, credit risk, and prepayment rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations of specific industries and market liquidity. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in the assumptions about these factors could affect the reported fair value of the financial instruments. Further details are given in Notes 8.

1.4. Significant accounting policies

1.4.1 Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: recognition and measurement (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial assets on initial recognition. Redeemable debt securities and other fixed-income securities are classified as fair value through profit or loss and are initially measured at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the profit and loss account.

Redeemable fixed-interest securities are reviewed for any permanent diminution in value periodically on a holding by holding basis. Where a permanent diminution is identified, an impairment is recognised as a realised investment loss in the profit and loss account.

Deposits with credit institutions are also classified at fair value through profit or loss and are held at cost as the best measure for fair value. These typically consist of callable on-demand deposits with very short maturities, which are not always held to maturity, and cash letters of credit (LOCs).

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies (continued)

1.4. Significant accounting policies (continued)

1.4.1 Financial Investments (continued)

Shares and other variable yield securities and units in unit trusts consist of collective investment schemes and private equity investments. These are also designated on initial recognition as an asset to be measured at fair value with fair value changes recognised in profit or loss at subsequent reporting periods. Realised gains and losses are also recognised through profit and loss.

1.4.2 Cash and cash equivalents

The Syndicate has applied Part 1 *General Rules and Formats of Schedule 2* to the Regulations as per FRS 102.7.20A whereby cash on the balance sheet includes only cash and balances at central banks and loans and advances to banks repayable on demand.

Note 12 to the cash flow statement however discloses both cash at bank as well as short-term deposits with credit institutions. These consist of collateralised cash LOCs with a restriction of one month or less.

1.4.3 Fair value of financial assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market value.

Note 8 illustrates the fair value hierarchy as applied to the Syndicate's financial assets.

1.4.4 Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses, net of investment expenses, charges and interest. In accordance with FRS 102 29.19 Income Tax, dividends are recognised at the amount receivable including withholding tax if applicable, but excluding any attributable tax credit.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been allocated to the technical account in respect of actual investment return on investments supporting the general insurance technical provisions and member balances. Any investment returns on investments that relate to undistributed profits on closed years remain in the non-technical account.

1.4.5 Financial liabilities

The Syndicate's financial liabilities consist of insurance creditors, intercompany balances and trade payables.

All financial liabilities are recognised initially at fair value. Intercompany balances are repayable on demand and are typically settled within one year. Intercompany balances are subsequently measured at amortised cost should they remain unsettled over a year.

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies (continued)

1.4. Significant accounting policies (continued)

Insurance Contracts

1.4.6 Premiums

Gross written premiums represent premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to business written in previous financial years, and are stated gross of commissions but net of taxes, duties levied on premiums and other deductions. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

1.4.7 Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims management costs that have been determined by an apportionment of employment costs, and any adjustments to claims outstanding from previous years.

Internal claims handling costs, including remuneration costs of the claims department, are reclassified from administrative expenses and included within claims incurred.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risk.

1.4.8 Claims outstanding

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported (IBNR) is established from statistical analysis undertaken by the Syndicate's actuaries. The methods used and the estimates made are reviewed regularly. Significant delays are experienced in the notification and settlement of certain claims.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movement in industry benchmarks

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies (continued)

1.4. Significant accounting policies (continued)

1.4.8 Claims outstanding (continued)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Syndicate has regard to claim circumstances as reported, and information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are assessed separately where appropriate, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of the large claims.

The provision for claims outstanding is based on information available at the balance sheet date and is estimated to give a result within a normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where assumptions over claims inflation may alter in future, there is a contingent liability in respect of this uncertainty.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year, and the current security rating of the reinsurance companies involved.

Anticipated salvage and subrogation recoveries are calculated on an individual case basis. The level of recovery estimated is set on the basis of information which is currently available, including potential outstanding claims advices and case law. Salvage and subrogation recoveries are included in claims incurred in the profit and loss account.

1.4.9 Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts, and over the term of the reinsurance contract for losses-occurring contracts.

1.4.10 Provisions for unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The overall assessment of whether a provision is necessary is made on the basis of all categories of business. No account is taken of future investment income.

At 31 December 2015 and 31 December 2014 the Syndicate did not have an unexpired risks provision.

1.4.11 Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts and the renewal of existing insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Amortisation is reported in the technical account.

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies (continued)

1.4. Significant accounting policies (continued)

1.4.11 Deferred acquisition costs (continued)

Commissions receivable on outwards reinsurance contracts are amortised over the term of the outwards reinsurance premiums and deferred to the extent that they are attributable to outwards reinsurance premiums unearned as at the balance sheet date.

1.4.12 Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

1.4.13 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method.

1.4.14 Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration paid or payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

1.4.15 Pension costs

Liberty Specialty Markets Limited (LSML) operates a defined contribution pension scheme. Pension contributions relating to managing agency staff working on behalf of the Syndicate, as seconded from LSML are charged to the Syndicate and included within net operating expenses.

LMAL operates a defined benefit pension scheme, which provides benefits based on final pensionable pay for all qualifying employees. Costs in respect of the scheme relating to managing agency staff working on behalf of the Syndicate are charged to the Syndicate.

1.4.16 Foreign currencies

The Syndicate has adopted USD as its functional based on a detailed assessment and has also chosen USD as its presentational currency. This constitutes as a change in accounting policy due to the adoption of FRS 102. The effect of this transition can be seen in Note 20.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions, or at an appropriate average rate. Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

These exchange differences are recorded in the non-technical account.

Notes to the Financial Statements

for the year ended 31 December 2015

1. Accounting policies (continued)

1.4. Significant accounting policies (continued)

1.4.16 Foreign currencies (continued)

Undistributed profits on closed years of account and any associated investment return earned thereon, net of any cash calls/ transfers from/to the member in respect of underwriting participations, are included within member's balances. This accumulated component of the member's balance is held predominantly in Sterling (GBP) and USD for future distribution. The foreign exchange movements on the investments that support this balance are recognised directly in other comprehensive income.

1.4.17 Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from Syndicate trading income. In addition, all UK basic-rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Other Debtors'.

No provision has been made for any overseas tax payable by the corporate member on underwriting results.

Notes to the Financial Statements

for the year ended 31 December 2015

2. Segmental Analysis

An analysis of the underwriting result before investment return is set out below:

	Gross premiums written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Re- insurance balance \$m	Total \$m
2015						
Direct insurance:						
Accident & Health	69.6	74.4	(39.2)	(35.6)	(5.8)	(6.2)
Motor (third-party liability)	17.2	37.6	(49.7)	(12.8)	0.3	(24.6)
Motor (other classes)	7.6	35.9	(51.5)	(12.1)	6.4	(21.3)
Marine aviation & transport	161.2	160.8	(66.8)	(58.8)	(20.8)	14.4
Fire & other damage to property	347.0	374.3	(138.9)	(133.9)	(59.5)	42.0
Third party liability	343.9	285.0	(186.2)	(86.9)	(38.8)	(26.9)
Miscellaneous	247.4	268.2	(164.3)	(121.3)	(9.5)	(26.9)
	1,193.9	1,236.2	(696.6)	(461.4)	(127.7)	(49.5)
Reinsurance	569.3	597.9	(216.5)	(236.7)	(26.7)	118.0
Total	1,763.2	1,834.1	(913.1)	(698.1)	(154.4)	68.5

Notes to the Financial Statements

for the year ended 31 December 2015

2. Segmental analysis (continued)

	Gross premiums written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Re- insurance balance \$m	Total \$m
2014						
Direct insurance:						
Accident & Health	90.5	99.7	(47.0)	(43.7)	(5.9)	3.1
Motor (third-party liability)	65.3	68.8	(84.5)	(17.3)	2.9	(30.1)
Motor (other classes)	91.1	94.0	(88.8)	(27.0)	(9.6)	(31.4)
Marine aviation & transport	171.8	177.0	(148.4)	(60.3)	11.1	(20.6)
Fire & other damage to property	409.1	351.4	(141.7)	(120.7)	(74.9)	14.1
Third party liability	207.9	201.8	(102.0)	(62.0)	(10.9)	26.9
Miscellaneous	314.4	262.0	(119.7)	(111.3)	(22.2)	8.8
	1,350.1	1,254.7	(732.1)	(442.3)	(109.5)	(29.2)
Reinsurance	687.1	700.1	(281.9)	(206.1)	(105.4)	106.7
Total	2,037.2	1,954.8	(1014.0)	(648.4)	(214.9)	77.5

All premiums were concluded in the UK.

Reinsurers' commissions and profit participations are included in the reinsurance balance.

Commissions on direct insurance gross premiums written during 2015 were \$311.7m (2014: \$364.1m).

The geographical analysis of premiums by destination is as follows:

	2015 \$m	2014 \$m
UK	410.8	456.3
Other EU Countries	333.3	354.5
Americas	618.8	735.4
Worldwide	400.3	491.0
Total	1,763.2	2,037.2

Notes to the Financial Statements

for the year ended 31 December 2015

3. Net Operating Expenses

	2015	2014
	\$m	\$m
Acquisition costs	(430.2)	(495.5)
Change in deferred acquisition costs	(23.6)	33.6
Administrative expenses	(244.3)	(186.5)
Gross operating expenses	(698.1)	(648.4)
Reinsurance commissions receivable	68.9	51.7
Net operating expenses	(629.2)	(596.7)

The member's standard personal expenses are included within administrative expenses.

4. Staff costs and Directors' remuneration

4.1. Staff costs

All staff are employed by Liberty Specialty Markets Limited. Employees are seconded to the Managing Agent to perform work on the Syndicate, for and on behalf of the member. The following amounts were recharged from the Managing Agent to Syndicate 4472 in respect of salary costs:

	2015	2014
	\$m	\$m
Wages and salaries	101.1	77.7
Social security costs	10.7	6.7
Other pension costs	5.3	5.8
Other	4.0	2.1
Total	121.1	92.3

Notes to the Financial Statements

for the year ended 31 December 2015

4. Staff costs and Directors' remuneration (continued)

4.1. Staff costs (continued)

The average number of employees seconded to the Managing Agent by Liberty Specialty Markets Ltd to work on the Syndicate during the year was as follows:

	2015 Number	2014 Number
Administration and finance	227	257
Underwriting	123	112
Claims	36	28
Total	387	397

4.2. Directors' remuneration

	2015 \$m	2014 \$m
Emoluments	3.2	3.5

During the year the Directors of the Managing Agent provided services to Syndicate 4472. The amounts shown above are the full amounts recharged to Syndicate 4472 in respect of Directors' emoluments for these services.

5. Auditors' remuneration

Auditors' remuneration is included as part of the administrative expenses in note 3 to the financial statements.

	2015 \$m	2014 \$m
Auditor's remuneration:		
- Audit services	0.7	0.7
- Actuarial services	0.4	0.4
- Other services	0.3	0.3
Total	1.4	1.4

6. Active underwriter emoluments

As previously detailed in the directors' report, the Syndicate's Active Underwriter changed partway through the year. On 1 July 2015, Peter Smith replaced Matthew Moore in this position. In aggregate, the position of Active Underwriter received remuneration of \$676,000 (2014: \$1,096,000) charged to the Syndicate and included within net operating expenses.

Notes to the Financial Statements

for the year ended 31 December 2015

7. Investment return

	Technical account		Non Technical account			Total
	General business		2015 \$m	2014 \$m	2015 \$m	
	2015 \$m	2014 \$m				
Income from other financial investments	90.5	103.0	31.2	25.0	121.7	128.0
Net losses on realisation of investments	(8.3)	(6.3)	(2.0)	(1.3)	(10.3)	(7.6)
Total investment income	82.2	96.7	29.2	23.7	111.4	120.4
Net unrealised gains/(losses) on investments	(62.3)	22.4	(16.0)	2.9	(78.3)	25.3
Investment expenses and charges	(4.2)	(4.5)	(1.5)	(1.6)	(5.7)	(6.1)
Total investment return	15.7	114.6	11.7	25.0	27.4	139.6

8. Financial investments

	Carrying Value \$m	Purchase Price \$m	Listed \$m
2015			
Shares and other variable yield securities and units in unit trust	120.2	119.7	100.4
Debt securities and other fixed income securities	3,532.0	3,606.4	881.9
Loans secured by mortgage	400.8	404.1	-
Deposits with credit institutions	27.2	27.2	-
Total	4,080.2	4,157.4	982.3

	Carrying Value \$m	Purchase Price \$m	Listed \$m
2014			
Shares and other variable yield securities and units in unit trust	85.1	85.2	75.4
Debt securities and other fixed income securities	3,650.6	3,628.8	693.9
Loans secured by mortgage	507.3	504.7	-
Deposits with credit institutions	28.5	28.5	-
Total	4,271.5	4,247.2	769.3

Notes to the Financial Statements

for the year ended 31 December 2015

8. Financial investments (continued)

All shares and other variable yield securities, debt securities and loans and deposits with credit institutions are designated at fair value through profit & loss.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
2015				
Shares and other variable yield securities and units in unit trusts	100.4	-	19.8	120.2
Debt securities and other fixed income securities	881.9	2,642.0	8.1	3,532.0
Loans and deposits with credit institutions	60.2	500.1	-	560.3
Total	1,042.5	3,142.1	27.9	4,212.5
	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
2014				
Shares and other variable yield securities and units in unit trusts	75.4	-	9.7	85.1
Debt securities and other fixed income securities	693.9	2,945.3	11.4	3,650.6
Loans and deposits with credit institutions	62.0	595.4	-	657.4
Total	831.3	3,540.7	21.1	4,393.1

Included within the Level 1 category are unadjusted quoted prices in active markets for identical assets that the Syndicate's asset manager has the ability to access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available, except as follows:

If the Syndicate holds a large number of similar assets that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level in the fair value hierarchy.

In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date.

If the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level in the fair value hierarchy.

Level 2 inputs are inputs other than quoted prices that are either directly or indirectly observable in the market. If the asset has a specified contractual term, a Level 2 input must be observable for substantially the full term of the asset

Adjustments to Level 2 inputs may vary depending on factors specific to the asset type. Those factors include the condition and/or location of the asset, the extent to which the inputs relate to items that are comparable to the asset, and the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the

Notes to the Financial Statements

for the year ended 31 December 2015

8. Financial investments (continued)

measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

Level 3 inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. Unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Unobservable inputs are developed based on the best information available in the circumstances.

All manually priced broker quotes are non-binding. The Portfolio Manager makes an assessment of the reasonableness of the broker quote received. Based on the Portfolio Manager's assessment, additional quotes may be obtained to support the fair value of an investment, in which case, the average of those quotes is used as the fair value of the investment. The Portfolio Manager provides support for the manual price and the Investment Team determines the appropriate level (level 2 or level 3) for the security. Manually priced broker quotes obtained on an individual case basis that cannot be substantiated to represent an executable/ exit price are classified as level 3. If the security was actively traded (with significant volume) within a thirty day period from the last day it was manually priced, evidence of the active trade with a broker quote is appropriate documentation to classify the security a level 2. When the average of multiple broker quotes is used, the level (2 or 3) is determined based on whether or not those quotes can be substantiated.

The Syndicate asset portfolio includes Private Equity investments. These have all been classified as Level 3 based on the criteria above. The Group Portfolio Manager receives partnership statements / financial statements for each investment from which the residual values are recorded, and then potentially adjusted when combined with adjusted ending value reports. The Group Portfolio Manager then recommends a valuation for each position, based on these statements and their own assessment/judgement.

9. Debtors arising out of Direct Insurance Operations

	2015	2014
	\$m	\$m
Intermediaries	419.8	392.3

10. Deferred acquisition costs

	2015	2014
	\$m	\$m
At 1 January	243.2	217.1
Change in deferred acquisition costs	(23.6)	33.6
Foreign exchange	(9.5)	(7.5)
At 31 December	210.1	243.2

11. Other Assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

Notes to the Financial Statements

for the year ended 31 December 2015

12. Cash and cash equivalents

	2015 \$m	2014 \$m
Cash at bank and in hand	30.6	63.3
Short-term deposits with credit institutions	27.2	28.5
Total	57.8	91.8

13. Provisions for Unearned Premiums

2015	Gross \$m	Reinsurers' Share \$m	Net \$m
At 1 January 2015	927.8	(94.7)	833.1
Premiums written in the year	1,763.2	(384.4)	1,378.8
Premiums earned in the year	(1,834.1)	334.4	(1,499.7)
Foreign exchange	(36.1)	2.9	(33.2)
At 31 December 2015	820.8	(141.8)	679.0

2014	Gross \$m	Reinsurers' Share \$m	Net \$m
At 1 January 2014	874.8	(38.1)	836.7
Premiums written in the year	2,037.1	(418.0)	1,619.1
Premiums earned in the year	(1,954.7)	358.9	(1,595.8)
Foreign exchange	(29.4)	2.5	(26.9)
At 31 December 2014	927.8	(94.7)	833.1

Notes to the Financial Statements

for the year ended 31 December 2015

14. Claims Outstanding

2015	Gross \$m	Reinsurers' share \$m	Net \$m
At 1 January 2015	3,605.8	(357.0)	3,248.8
Claims incurred during the year	913.1	(111.3)	801.8
Claims paid during the year	(934.4)	124.6	(809.8)
Foreign exchange	(142.2)	9.2	(133.0)
At 31 December 2015	3,442.3	(334.5)	3,107.8

2014	Gross \$m	Reinsurers' share \$m	Net \$m
At 1 January 2014	3,645.2	(412.0)	3,233.2
Claims incurred during the year	1,014.0	(92.1)	921.9
Claims paid during the year	(959.4)	140.5	(818.9)
Foreign exchange	(94.0)	6.6	(87.4)
At 31 December 2014	3,605.8	(357.0)	3,248.8

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk management

15.1. Governance framework

The objective of the of LSM's Risk Management and Internal Control Framework (RMF), under which the Managing Agent and Syndicate operate, is to enable it to engage with risks in a controlled fashion that is consistent with LSM's Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans and meet its obligations to policyholders. The Managing Agent's senior management recognise the importance of maintaining an efficient and effective risk management system.

The RMF establishes the governance of the risk management activities undertaken within the Syndicate, including the setting of roles and responsibilities, outlining the key risk management concepts and providing a clear structure linking the individual risk policies, processes and procedures. The RMF is owned by the Board.

The key concepts includes the linkage of business strategy to risk management strategy, the identification of emerging risks, the risk universe, the management of risks through the setting of risk appetites and the creation, maintenance, recording and testing of internal controls.

LSM has an established Risk Management function (which includes the Risk Management department under the Chief Risk Officer (CRO) and processes within the Capital Management and Actuarial departments), with oversight from the Risk Management Committee (a sub-committee of the Board) chaired by an independent non-executive director; the terms of reference incorporate the CRO's ability to convene a meeting independently of the executive management. In addition, the terms of reference for relevant management committees incorporate risk management responsibilities as delegated by the Board.

The Syndicate recognises that all staff have a role to play in managing the risks faced by the Syndicate. This reflects the three lines of defence model adopted by the Syndicate, consistent with market best practice, which emphasises the different roles in managing risk played by business units, advisory functions such as Risk Management, and independent assurance providers such as Internal Audit. The roles and responsibilities are documented in the risk policies, which are owned by the Board and adhere to the Syndicate's documentation standards. Each risk policy is owned by a member of the Executive Management Committee. The policies include the activities of identification, quantification, management and reporting on risks; including reporting on the performance of controls and the Syndicate's actual risk position against the Board risk appetite. LSM undertakes extensive work to validate the quantification of its risk profile using the Syndicate's Internal Model including the use of sensitivity, stress and scenario testing. The Syndicate's risk profile is reported to the Board via the ORSA and the Chief Risk Officers report.

15.2. Capital management objectives, policies and approach

15.2.1 Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 4472 is not disclosed in these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.2. Capital management objectives, policies and approach (continued)

15.2.2 Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

15.2.3 Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

15.3. Insurance risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events.

Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Premium risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual and correlated events.

Reinsurance is purchased on both a proportional and non-proportional basis. The majority of the proportional reinsurance is purchased on a quota share basis; this is designed to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is purchased on an excess of loss and stop loss basis. The excess of loss reinsurance is purchased on both a per-risk and catastrophe basis covering natural and non-naturally occurring perils. The stop loss is purchased on a net underwriting loss basis to protect the Syndicate's overall solvency. The non-proportional reinsurance is purchased to mitigate against shock losses to individual underwriting product lines and to protect the Syndicate's balance sheet from catastrophe losses on a multi-line basis.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.3. Insurance risk (continued)

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The use of reinsurance exposes the Syndicate to a counterparty credit exposure; this is reported under credit risk.

The Syndicate business plan is developed in accordance with the LSM's Board risk appetites to reduce the variability of the underwriting profit through the creation of a diversified portfolio of insurance contracts. The Syndicate's portfolio of general insurance contracts is spread across multiple product lines, industry sectors and geographic regions. The Syndicate writes both insurance and reinsurance contracts; both of which predominantly cover twelve months duration. Contracts are written by specialised underwriting teams in accordance to the business plan and the underwriting controls.

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the Syndicate's risk exposure. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

Exposure to concentrations arising from the insurance contracts is a material risk to the Syndicate. The Board risk appetites include specific exposure management limits; these are cascaded down to individual underwriting portfolios. The concentrations are tiered in accordance to the Syndicate's exposure management policies; with the resulting tier determining the appropriate methodology for quantification. The Syndicate supports its internal quantification of exposure concentrations by utilising external, commercially available exposure management models. Exposure management models are validated to ensure they are parameterised appropriately for the Syndicate's portfolio, however, there remains a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of concentration of exposure the Syndicate writes, the following table shows the Syndicate's exposure to its three largest natural catastrophe perils:

Peril region	Industry Loss \$m	Syndicate Loss Gross \$m	Syndicate Loss Final Net \$m
North American Hurricane	220,338.6	733.6	343.5
European Wind	39,196.0	666.4	395.6
North American Earthquake	80,711.7	665.2	311.1

Reserve risk is mitigated through the use of detailed analysis performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long term reserve profile of the Syndicate remains stable.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.3. Insurance risk (continued)

The table below sets out the concentration of outstanding claim liabilities by type of contract:

	31 December 2015			31 December 2014		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
Commercial	484.7	(131.6)	353.1	463.3	(61.6)	401.7
Reinsurance	2,377.2	(113.8)	2,263.4	2,606.0	(180.2)	2,425.8
Specialty	1,401.2	(230.9)	1,170.3	1,464.3	(209.9)	1,254.4
Total	4,263.1	(476.3)	3,786.8	4,533.6	(451.7)	4,081.9

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

	31 December 2015			31 December 2014		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
UK	1,293.4	(209.0)	1,084.4	1,339.4	(155.5)	1,183.9
Other EU Countries	420.2	(91.1)	329.1	432.1	(76.0)	356.1
USA	1,014.3	(72.6)	941.7	1,075.0	(47.0)	1,028.0
Worldwide	1,535.2	(103.6)	1,431.6	1,687.1	(173.2)	1,513.9
Total	4,263.1	(476.3)	3,786.8	4,533.6	(451.7)	4,081.9

Key Assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of paid and incurred claims, claim handling costs and claim inflation factors for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, delays in settlement, policy conditions, and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Sensitivities

There is a wide range of possible outcomes in assessing the technical provisions due to the uncertainty associated in estimating ultimate claims and premiums for the business written.

For all actuarial projections the final outcome will depend on the actual development of claims which in turn relies upon the appropriateness of the historic data to predict the likely development by class.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.3. Insurance risk (continued)

Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such issues would include unexpected claims inflation, shocks to the global economy, changes in legislation and the emergence of new types of claim.

The results and accuracy of some underwriting classes can be sensitive to the performance of certain key contracts, either through large exposures or through a large volume of business being written under the contract, relative to the size of the account. For example our Motor XL account is affected by a number of PPOs (Periodical Payment Orders) where there is uncertainty in the payment size of future claims. Additionally ultimate claims are highly dependent on exposure to and the future incidence of catastrophe events, either natural or man-made.

A large proportion of the Technical Provisions are in long-tail casualty classes, which increases the uncertainty relative to other classes of business. Estimates make no provision for potential and uncertainty of future claims arising from new latent causes or classes of claim not as yet materially recognised in the historical experience.

An increasingly significant amount of business is also written through coverholders which also increases the uncertainty of the business being written.

The outwards treaty reinsurance programme is predominantly denominated in Euro and USD – any recoverable event that is not settled in either of these currencies materially increases the uncertainty in the estimation of the recoveries due to movements in the foreign exchange rate from now until the date of settlement.

Significant assumptions for the Syndicate did not materially change from the previous period.

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The cumulative claims estimates and cumulative payments are translated into USD at the period end rate as at 31 December 2015. The claims development information disclosed is being increased from five years to ten years over the period 2016 - 2020.

Gross Insurance contract outstanding claims provision as at 31 December 2015:

Estimate of cumulative claims	2010 and	2011	2012	2013	2014	2015	Total
	prior						
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At end of underwriting year		690.5	502.4	496.4	510.6	461.3	
One year later		1,039.4	916.4	1,022.4	1,025.4		
Two years later		1,075.8	948.7	1,023.4			
Three years later		1,029.1	956.8				
Four years later		995.7					
Cumulative payments		738.4	551.2	538.6	303.8	30.0	
Estimated balance to pay	1,141.7	257.3	405.6	484.8	721.6	431.3	3,442.3

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.3. Insurance risk (continued)

Net insurance contract outstanding claims provision as at 31 December 2015:

Estimate of cumulative claims	2010 and prior \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	Total \$m
At end of underwriting year		571.9	428.8	451.7	464.6	403.4	
One year later		869.1	828.9	928.9	925.7		
Two years later		900.2	852.1	919.1			
Three years later		866.3	868.0				
Four years later		844.1					
Cumulative payments		594.8	491.6	478.3	289.9	29.4	
Estimated balance to pay	1,031.5	249.3	376.4	440.8	635.8	374.0	3,107.8

15.4. Financial risk

15.4.1 Credit risk

15.4.1(i) Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations.

The following policies and procedures are in place to mitigate the Syndicate's exposure to credit risk:

- Robust governance structures with the Board setting headline risk appetites and cascading this down to the rest of the business, with relevant risk mitigation strategies implemented including robust controls and monitoring of key risk indicators.
- A credit risk policy and procedure document setting out the framework for what constitutes credit risk for the Syndicate. The policy and procedure document is regularly reviewed for pertinence and for changes in the credit risk environment. Compliance with Syndicate policies and procedures is monitored, and exposures and breaches are reported to the relevant committee. All committees meet on a regular basis, with exception meetings held if necessary.
- Ensuring counterparties are within risk appetite by dealing with companies that have a good credit rating or financial standing and active mitigation of credit risk by obtaining collateral or financial guarantees where necessary and thereafter ensuring appropriate monitoring.
- From an investment perspective, credit risk captures the potential loss due to default or migration to a lower rating. An Investment Management Policy sets out the assessment and determination of what constitutes credit risk (as a subset of market risk). Compliance with the policy is monitored; exposures and any breaches are reported to the Investment Committee. The policy is reviewed regularly. Limits are set for financial investments; a minimum overall average credit rating must be maintained in addition to minimum rating requirements per asset.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.1 Credit risk (continued)

15.4.1(i) Credit risk (continued)

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position.

2015	Neither due nor impaired \$m	Financial assets that are past due but not impaired \$m	Financial assets that have been impaired \$m	Total \$m
Shares and other variable yield securities and unit trusts	120.2	-	-	120.2
Debt securities	3,526.4	-	5.6	3,532.0
Loans with credit institutions	400.8	-	-	400.8
Deposits with credit institutions	27.2	-	-	27.2
Overseas deposits as investments	132.3	-	-	132.3
Reinsurer' share of claims outstanding	334.5	-	-	334.5
Reinsurance debtors	6.6	28.8	-	35.4
Cash at bank and in hand	30.6	-	-	30.6
Insurance debtors	803.4	34.3	-	837.7
Other debtors	0.3	-	-	0.3
Total credit risk	5,382.3	63.1	5.6	5,451.0

2014	Neither due nor impaired \$m	Financial assets that are past due but not impaired \$m	Financial assets that have been impaired \$m	Total \$m
Shares and other variable yield securities and unit trusts	85.1	-	-	85.1
Debt securities	3,650.6	-	-	3,650.6
Loans with credit institutions	507.3	-	-	507.3
Deposits with credit institutions	28.5	-	-	28.5
Overseas deposits as investments	121.6	-	-	121.6
Reinsurer' share of claims outstanding	357.0	-	-	357.0
Reinsurance debtors	12.4	21.0	-	33.4
Cash at bank and in hand	63.3	-	-	63.3
Insurance debtors	839.3	11.7	-	851.0
Other debtors	0.3	-	-	0.3
Total credit risk	5,665.4	32.7	-	5,698.1

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.1 Credit risk (continued)

15.4.1(ii) Credit risk – rating

The tables below provide information regarding the credit risk exposure of the syndicate at 31 December 2015. Assets have been classified by way of a waterfall approach. Three rating agents are used in this analysis where possible. Where each of the three provide a rating, the median is selected. However, where at least two of the ratings are equivalent, the majority prevails. If only two ratings are provided, then prudence prevails and the lower of the two is selected. Where only one rating is obtainable, that rating is used. Internal ratings are then applied for those instances where an external rating does not exist.

Credit rating relating to financial assets that are neither past due nor impaired

	AAA	AA	A	BBB	<BBB	Not Rated	Total
2015	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shares and other variable yield securities and unit trust	-	9.3	60.2	30.9	-	19.8	120.2
Debt securities	1,195.8	630.3	875.9	806.1	18.3	-	3,526.4
Loans with credit institutions	350.0	3.4	3.3	39.2	4.9	-	400.8
Deposits with credit institutions	-	-	-	27.2	-	-	27.2
Overseas deposits as investments	81.1	27.7	15.1	7.7	0.3	0.4	132.3
Reinsurer' share of claims outstanding	-	86.0	230.4	-	0.1	18.0	334.5
Reinsurance debtors	-	0.8	5.3	-	-	0.5	6.6
Cash at bank and in hand	-	-	25.0	(1.7)	-	7.3	30.6
Total credit risk	1,626.9	757.5	1,215.2	909.4	23.6	46.0	4,578.6

Credit rating relating to financial assets that are neither past due nor impaired

	AAA	AA	A	BBB	<BBB	Not Rated	Total
2014	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shares and other variable yield securities and unit trust	-	3.6	62.9	9.4	-	9.2	85.1
Debt securities	1,203.0	682.3	1,019.4	739.2	6.7	-	3,650.6
Loans with credit institutions	466.9	9.7	4.9	20.1	5.7	-	507.3
Deposits with credit institutions	-	-	-	28.5	-	-	28.5
Overseas deposits as investments	73.1	25.4	13.6	8.8	0.3	0.4	121.6
Reinsurer' share of claims outstanding	-	82.4	244.0	0.3	0.1	30.2	357.0
Reinsurance debtors	-	5.0	7.0	-	-	0.4	12.4
Cash at bank and in hand	-	-	30.7	30.2	-	2.4	63.3
Total credit risk	1,743.0	808.4	1,382.5	836.5	12.8	42.6	4,825.8

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.1 Credit risk (continued)

15.4.1(ii) Credit risk – rating (continued)

Maximum Credit Exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit risk portfolio. This enables management to focus on the applicable risks and comparison of credit exposures. The attributable financial ratings are assessed and updated regularly. During the year all live counterparties were within acceptable limits and had acceptable ratings, there were no breach of set limits.

The amount of change during the period in the fair value of financial instruments held at fair value through profit and loss attributable to changes in credit risk was \$4.4m (2014: \$0.1m).

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

Collateral

Credit Risk is also mitigated by entering into collateral agreements. The Investment Committee monitors the market value, credit quality and asset type of the collateral. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty, with the relevant procedures being completed and management having to give sign off regarding the acceptability of types of collateral and the value of collateral held. These arrangements are then monitored to ensure parameters are adhered to and valuations or ratings continue to be acceptable. Collateral was mainly held in the form of Letters of Credit and funds held within designated accounts.

15.4.2 Liquidity risk

Liquidity risk is the probability of loss arising from situations where the Syndicate either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands. LSM maintains sufficient liquidity to meet liabilities as they fall due. Cash will only be held for routine cash flow purposes, or where there is a specific regulatory requirement, as LSM accepts liquidity risk to maximise invested assets.

LSM holds capital to cover the risk that assets are required to be liquidated below book value in a stressed (1 in 200 year) scenario, as well as balancing the liquidity of the investment portfolio.

Based on reviews of the historic liquidity of assets in stressed scenarios, LSM will ensure that the weighting of investment grade bonds rated AAA-AA will exceed 20% of the total investment portfolio for each legal entity.

The Syndicate will maintain a diversified and appropriately liquid portfolio aimed at minimising the mismatch in cash flows between the assets and net-liabilities. Illiquid investments will be considered on a case-by-case basis depending on the supporting justification; these securities will be subject to regular review to ensure the impact on liquidity risk is immaterial.

The Syndicate has an LOC of £298m that can be converted to cash in 30 days (or Liberty Mutual Group could elect to provide cash and not utilise the LOC); this gives the ability for the Syndicate to address any material short-term liquidity requirements, and provides an opportunity / some flexibility to go longer with the remainder of the assets.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.2 Liquidity risk (continued)

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
2015	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding claim liabilities	-	647.0	1,268.1	599.4	927.8	3,442.3
Creditors	400.6	-	-	-	-	400.6
Total credit risk	400.6	647.0	1,268.1	599.4	927.8	3,842.9

	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
2014	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding claim liabilities	-	977.3	1,190.7	590.1	847.7	3,605.8
Creditors	368.1	-	-	-	-	368.1
Total credit risk	368.1	977.3	1,190.7	590.1	847.7	3,973.9

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.3 Market risk

Market risk is the risk of fluctuations to the net asset value (NAV) due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net-liabilities. Market risk is comprised of:

- Currency risk
- Interest rate risk
- Equity risk

The following policies and procedures are in place to govern the exposure to market risk

- An Investment Management Policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. The Investment Management Policy details how the Syndicate measures, monitors and mitigates the potential market risks posed by the investment portfolio. Compliance with the policy is monitored with exposures and any breaches reported to the Investment Committee and the Risk Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

15.4.3(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is the USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The Syndicate seeks to mitigate the risk by matching foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign exchange rate risk at the reporting date:

	GBP	USD	EUR	CAD	Total
	\$m	\$m	\$m	\$m	\$m
2015					
Total assets	904.9	3,893.3	831.8	194.3	5,824.3
Total liabilities	(1,245.0)	(2,748.8)	(639.6)	(88.7)	(4,722.1)
Net assets	(340.1)	1,144.5	192.2	105.6	1,102.2
	GBP	USD	EUR	CAD	Total
	\$m	\$m	\$m	\$m	\$m
2014					
Total assets	970.7	3,848.6	1,043.6	203.0	6,065.9
Total liabilities	(1,272.6)	(2,792.2)	(795.7)	(78.9)	(4,939.4)
Net assets	(301.9)	1,056.4	247.9	124.1	1,126.5

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.2 Market risk (continued)

15.4.2(i) Currency risk (continued)

The table below gives an indication of the impact of on net asset value of a percentage change in the relative strength of the USD against GBP, Canadian dollar and the Euro simultaneously.

	2015	2014
	\$m	\$m
Dollar weakens:		
10% against other currencies	(9.4)	7.8
20% against other currencies	(21.2)	17.5
Dollar strengthens:		
10% against other currencies	7.7	(6.4)
20% against other currencies	14.1	(11.7)

15.4.2(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates, with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on fixed rate and variable rate financial assets.

This measures the impact on profit or loss for the year (for items recorded at fair value through profit or loss) that would arise from a reasonably possible change in interest rates on financial instruments at the period end.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that real-world movements in these variables are non-linear.

Notes to the Financial Statements

for the year ended 31 December 2015

15. Risk Management (continued)

15.4. Financial risk (continued)

15.4.2 Market risk (continued)

15.4.2(ii) Interest rate risk (continued)

Changes in variables	Impact on result \$m	Impact on Members' balances \$m
At 31 December 2015		
+ 50 basis points	(72.3)	(72.3)
- 50 basis points	77.7	77.7
At 31 December 2014		
+ 50 basis points	(72.1)	(72.1)
- 50 basis points	73.3	73.3

15.4.2(iii) Equity price risk

Equity risk arises from the level or volatility of market prices for equities.

The Syndicate's equity risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Investment Management Policy governs the management of equity risk by setting limits on equity investments which are regularly monitored.

There is no significant concentration of equity risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, insurance and with-profit contract assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the profit and loss account) and equity (that reflects adjustments to profit before tax and changes in fair value of available for sale financial assets that are equity instruments). The correlation of variables will have a significant effect in determining the ultimate impact on equity risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that real-world movements in these variables are non-linear.

Changes in variables - market indices	Change in variables \$m	2015		2014	
		Impact on result \$m	Impact on equity \$m	Impact on result \$m	Impact on equity \$m
FTSE 100	+5%	1.0	1.0	0.5	0.5
FTSE 100	-5%	(1.0)	(1.0)	(0.5)	(0.5)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

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16. Related parties

Liberty Corporate Capital Limited is the corporate member of Syndicate 4472. Liberty Corporate Capital's immediate parent company is Liberty International Holdings Inc.

Liberty Managing Agency Limited (LMAL) is the managing agent of Syndicate 4472. Liberty Managing Agency Limited's immediate parent company is Liberty International Holdings LLC. The Agency charged a fee of \$53.7m (2014: \$26.7m) to the Syndicate for its services, which is within the pre-determined percentage by year of account, as agreed with Lloyd's. At the balance sheet date, the Syndicate owed LMAL \$45.1m (2014: \$78.1m).

Liberty Specialty Markets Limited is a service company from which employees are seconded to the Managing Agent to perform Syndicate duties for and behalf of the corporate member, for which costs are incurred and re-charged to the Syndicate. During the year, LSML charged a total of \$175.2m (2014: \$142.2m – previously charged by LMAL) to the Syndicate in recharged expenses, of which the Syndicate owed \$0.1m (2014: \$1.7m) at the balance sheet date. Liberty Specialty Markets Limited's immediate parent company is Liberty UK and Europe Holdings Limited.

Liberty Syndicate Services Limited acts as a coverholder for the Syndicate. The company also acts as a broker in certain reinsurance transactions for the Syndicate. During the year, the service company charged the Syndicate \$40.4m (2014: \$35.1m) in commissions, of which \$23.3m (2014: \$43.8m) was outstanding at the balance sheet date. Its ultimate parent company is Liberty Mutual Holdings Company Inc.

Liberty Mutual Insurance Europe Limited (LMIE) is a company registered within England and Wales that operates under the LSM umbrella. During the year, the Syndicate placed \$0.9m (2014: \$23.3m) of outwards reinsurance contracts with LMIE. The losses recovered from LMIE during the year amounted to \$4.3m (2014: nil) whereas \$24.8m (2014: \$23.3m) related to this reinsurance contract is included in total reinsurer's share of technical provisions in the balance sheet.

Liberty International Group (LIG) constitutes all other entities and affiliates to the Syndicate's ultimate parent company, Liberty Mutual Holdings Company. During the year, the Syndicate placed outwards reinsurance protection of \$251.6m (2014: \$151.1m) with LIG. The losses recovered from LIG during the year amounted to \$44.5m (2014: \$41.8m) whereas \$84.4m (2014: \$101.3m) related to this reinsurance contract is included in total reinsurer's share of technical provisions in the balance sheet.

Liberty Specialty Markets MENA Limited (LSM MENA), established 2015, also acts as a coverholder for the Syndicate, for which it charges a fee for its services. The amount charged during the period was \$1.5m (2014: nil), of which a debit balance of \$0.3m (2014: nil) remained at the balance sheet date. LSM MENA's immediate parent company is Liberty UK and Europe Holdings Limited.

17. Member's Funds

17.1. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet their participating member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. Refer to note 15 for further details.

17.2. Funds in Syndicate (FIS)

Liberty Corporate Capital Limited holds investments in the Syndicate to be used to support the Syndicate's capital requirements of Funds at Lloyd's. This gives the Syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the Syndicate

Notes to the Financial Statements

for the year ended 31 December 2015

17. Member's Funds (continued)

17.2. Funds in Syndicate (FIS) (continued)

that are held within the premium trust funds. The value of FIS as at the balance sheet date was \$1,108.1m (2014: \$982.6m).

The member participates on the Syndicate by reference to years of accounts' ultimate results, and assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year. The balance due to the member is payable when a year of account closes, usually after three years. Syndicates which are wholly aligned are able to retain closed year profits as capital to support their underwriting activities. This is known as Funds in Syndicate. The 2006 year of account balance was retained within the Syndicate at its time of closure. Subsequently, the Syndicate also retained the results of the 2007 to 2011 years of account at their time of closure. During 2015, the 2012 year of account result was also transferred to Funds in Syndicate. Additionally, net distributions to the member of \$97.1m (2014: \$52.7m) occurred during the calendar year.

18. Off-balance sheet arrangements

The Syndicate has not been party to an arrangement, which is not reflected in its statement of financial position, where material risk and benefits arise for the Syndicate.

19. Ultimate parent company

The ultimate parent company of both Liberty Corporate Capital Limited and Liberty Managing Agency Limited is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up, and of which these companies are members, is Liberty International Holdings LLC.

Copies of the group accounts of Liberty International Holdings Inc., Liberty International Holdings LLC and Liberty Mutual Holding Company Inc. are available from the company's office, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A.

20. Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2014.

20.1. Transitional Relief

On transition to FRS 102 from previous UK GAAP, the Syndicate has taken advantage of the following transitional relief:

Claims Development Triangles

The Syndicate has elected to apply paragraph 6.3 of FRS 103 to claims development triangles where the Syndicate need not disclose information that occurred earlier than five years before the end of the first financial year in which this FRS applies.

Notes to the Financial Statements

for the year ended 31 December 2015

20. Transition to FRS 102 and FRS 103 (continued)

20.1. Transitional Relief (continued)

The impact from the transition to FRS 102 and FRS 103 is as follows:

	\$m
Opening members' balances at 1 January 2014 effect	-
Result for the year ended 31 December 2014 decreased	(3.4)
Statement of total comprehensive income at 31 December 2014 increased	3.4
Closing members' balances at 31 December 2014 effect	-

The following were changes in accounting policies arising from the transition to FRS 102 and FRS 103:

20.2. Foreign exchange

Under FRS 102, a foreign operation must be an entity. Under previous UK GAAP, a foreign operation could be a group of assets and liabilities accounted for in a foreign currency. As a result, some foreign currency assets and liabilities no longer meet the definition of a foreign operation and exchange differences arising from the retranslation of these balances into the functional currency have to be recognised in profit and loss rather than recognised in other comprehensive income. The impact of this is to reduce profit and loss by \$3.4m in 2014. There is no impact on total equity.